

## Message Text

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PAGE 01 ISLAMA 04865 161338Z  
ACTION NEA-11

INFO OCT-01 EUR-12 IO-13 ISO-00 NEAE-00 EB-08 COME-00  
TRSE-00 OMB-01 STR-07 CIAE-00 INR-10 NSAE-00  
INRE-00 SSO-00 AID-05 PA-01 ICAE-00 /069 W  
-----112482 161350Z /50

O R 161205Z MAY 78  
FM AMEMBASSY ISLAMABAD  
TO SECSTATE WASHDC IMMEDIATE 7222  
INFO AMEMBASSY ANKARA  
AMEMBASSY COLOMBO  
AMEMBASSY DACCA  
AMEMBASSY KABUL  
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AMEMBASSY NEW DELHI  
AMEMBASSY TEHRAN  
AMCONSUL KARACHI  
AMCONSUL LAHORE  
USMISSION GENEVA

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E.O. 11652: N/A  
TAGS: ETRD, IN, PK  
SUBJECT: INDIAN-PAKISTAN TRADE TALKS RESULT IN IMPASSE

SUMMARY: THE RECENT INDIAN-PAKISTAN TRADE TALKS IN ISLAMABAD  
AIMED AT A NEW BILATERAL TRADE AGREEMENT WERE INCONCLUSIVE. A  
JOINT STATEMENT ISSUED AT THE END OF THE TALKS PROMISED ONLY AN  
EXCHANGE OF INDICATIVE LISTS AND AN AGREEMENT TO MEET AGAIN AT A  
FUTURE, UNSPECIFIED TIME. THE GOP, WHICH IS FRIGHTENED BY THE  
SIZEEAND DIVERSITY OF THE HEAVILY-PROTECTED ECONOMY OF ITS GIANT  
NEIGHBOR, IS LOOKING TO INSURE THAT FUTURE TRADE OFFERS MORE TO  
PAKISTAN THAN THE PATTERN WHICH HAS DEVELOPED IN THE 18 MONTHS IN  
WHICH TRADE HAS BEEN OPEN TO THE PRIVATE SECTORS OF BOTH  
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COUNTRIES. THEREFORE, THE GOP WANTS TO REVERT TO A  
GOVERNMENT-TO-GOVERNMENT TRADE FOR NOW IN ORDER CONTROL TRADE AND  
TO HAVE GUARANTEED MINIMUM EXPORTS IN SPECIFIED PRODUCTS. END  
SUMMARY.

1. AN INDIAN TRADE DELEGATION HEADED BY GOI COMMERCE SECRETARY R.  
S. THAPAN VISITED ISLAMABAD MAY 6-8 FOR TALKS AIMED AT REACHING A

NEW BILATERAL TRADE AGREEMENT WITH PAKISTAN TO REPLACE THE THREE YEAR AGREEMENT WHICH EXPIRED IN JANUARY 1978. THE PAKISTANI DELEGATION WAS HEADED BY GOP COMMERCE SECRETARY MUKHTAR MASOOD. THE TALKS ENDED INCONCLUSIVELY, WITH THE FINAL STATEMENT PROMISING ONLY AN EXCHANGE OF INDICATIVE LISTS AND AGREEMENT TO MEET AGAIN AT A FUTURE, UNSPECIFIED DATE. FOR NOW, BUT PROBABLY NOT FOR LONG, THE EXISTING TRADE REGIME WILL BE CONTINUED, I.E., TRADE OPEN TO THE PRIVATE SECTORS OF BOTH COUNTRIES.

2. PAKISTAN IS ANXIOUS TO INSURE THAT ANY EXPANSION OF TRADE BE MORE MUTUALLY ADVANTAGEOUS THAN THE PATTERN WHICH HAS DEVELOPED IN THE PAST 18 MONTHS, DURING WHICH PERIOD, TRADE HAS BEEN OPEN TO THE PRIVATE SECTORS OF BOTH COUNTRIES. FOR THE 18 MONTHS PRIOR TO THAT, TRADE WAS RESTRICTED TO THE GOVERNMENT-TO-GOVERNMENT LEVEL. IN THE 20 MONTHS FROM JULY 1976 TO FEBRUARY 1978, PAKISTAN EXPORTED \$23.5 MILLION TO INDIA, WHILE IMPORTING \$58.36 MILLION.

3. CLEARLY, THERE IS A DIFFERENCE OF INTERESTS BETWEEN THE TWO PARTIES. INDIA, HAVING THE STRONGER AND MORE DIVERSIFIED ECONOMY, WISHES TO EXPAND TRADE ON THE MOST OPEN TERMS CONSISTENT WITH THE IMPORT REGIMES IN BOTH COUNTRIES, WHILE PAKISTAN, FOR HISTORICAL AND ECONOMIC REASONS, DOES NOT VIEW ITS TRADE WITH INDIA AS SIMILAR TO TRADE WITH ANY OTHER GATT MEMBER AND WANTS TO PROCEED CAUTIOUSLY. GOP OFFICIALS, AT LEAST, ARE AWARE THAT BALANCED TRADE MAY BE NEITHER POSSIBLE NOR IN PAKISTAN'S LIMITED OFFICIAL USE

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INTERESTS. NONETHELESS, THEY WANT THE TRADE TO DEVELOP IN A MUTUALLY ADVANTAGEOUS MANNER. THE PRIMARY PROBLEMS FOR THE GOP ARE (1) THE DISPARITY IN SIZE OF THE TWO ECONOMIES GIVES INDIA AN ADVANTAGE BOTH IN RANGE OF GOODS IT CAN EXPORT AND OFTEN THEIR COST AND (2), PAKISTAN'S LESS DIVERSIFIED ECONOMY IS LESS PROTECTED BY IMPORT SUBSTITUTION RULES, WITH THE RESULT THAT ITS FREE LIST IS SUBSTANTIALLY BROADER THAN INDIA'S (376 ITEMS VERSUS 17 ACCORDING TO JOINT SECRETARY OF COMMERCE BADR HASHMI). PAKISTAN FEARS THAT TRADE DOMINATION BY INDIA WOULD LEAD TO POLITICAL DOMINATION AS WELL.

4. GIVEN THIS SITUATION, THE GOP WANTS TRADE TO REVERT TO THE GOVERNMENT-TO-GOVERNMENT LEVEL SO THAT IT CAN CONTROL THE FLOW OF IMPORTS. AS A FURTHER MEANS OF CONTROLLING THE LARGE IMBALANCE IN TRADE, THE GOP WANTS AN ARRANGEMENT UNDER WHICH INDIA WILL GUARANTEE A MARKET FOR SPECIFIED PAKISTANI PRODUCTS. PAKISTAN DOES NOT FEEL IT CAN INITIALLY COMPETE ON EQUAL TERMS IN THE INDIAN MARKET AGAINST INDIAN-MADE GOODS OR THE IMPORTS OF OTHER COMPETITORS. WITHOUT AN INDIAN COMMITMENT TO MAKE A MARKET IN INDIA FOR GOODS SELECTED BY INDIA, THE GOP FEELS THAT TRADE WOULD BE A ONE-WAY STREET.

5. THE GOP IS LOOKING FOR INDIA'S SUBMISSION OF ITS INDICATIVE LIST BY THE END OF THE MONTH, OR THE GOP MAY TAKE UNILATERAL ACTION IN RETURNING TO GOVERNMENT-ONLY TRADE AT A MUCH REDUCED LEVEL.

6. WHILE THE TRADE RELATIONSHIP BETWEEN INDIA AND PAKISTAN HAS, AS NOTED ABOVE, MORE THAN ENOUGH INGREDIENTS TO HAVE PRODUCED THIS TRADE TALKS STALEMATE, THERE ARE ALSO POLITICAL FACTORS AT WORK TO PREVENTOR DISCOURAGE THE COMPROMISES NECESSARY FOR AGREEMENT. EVENTS IN AFGHANISTAN, AND ESPECIALLY INDIA'S QUICK RECOGNITION OF THENEW AFGHAN REGIME, HAVE REKINDLED PAKISTANI SUSPICIONS ABOUT INDO-SOVIET COOPERATION AND INDIAN INTEREST IN INDO-PAK RECONCILIATION. THE RECENT WARMING TREND IN INDO-PAK LIMITED OFFICIAL USE

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RELATIONS MAY WELL BE GRINDING TO A HALT, AS A RESULT, AND THE NOW DIM FUTURE FOR BILATERAL TRADE MAY BE BOTH A CASUALTY AND A BAROMETER OF THIS.

HUMMEL

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
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**Decaption Date:** 20 Mar 2014  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**Disposition Event:**  
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**Disposition Remarks:**  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014